



State of Utah  
DEPARTMENT OF NATURAL RESOURCES  
DIVISION OF OIL, GAS AND MINING

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January 16, 1998

CERTIFIED RETURN RECEIPT  
P 074 976 625

Rex Day  
Rancho Equipment Services  
Red Emerald Incorporated  
P.O. Box 576  
Delta, Utah 84624

Re: Request for Large Mining Plan, Rancho Equipment Services/Red Emerald Inc., Red Emerald Mine, S/001/011, Beaver County, Utah

Dear Mr. Day:

Recently we received a copy of a BLM letter (dated December 2, 1997) which was sent to you regarding the amount of surface disturbance associated with your Violet/Red Beryl mine project located in Beaver County, Utah. The Division presently holds a small mining permit under Rancho Equipment Services for this operation. We believe that the amount of surface disturbance associated with this project may have exceeded the five (5) acre threshold for a small mining permit.

Both agencies have been somewhat concerned that your project disturbance may be approaching this critical threshold, but did not pursue this matter previously because Kennecott Minerals had expressed a serious interest in evaluating this property, with an option to purchase a portion of the property. This would have made them the responsible party for permitting the project as a large mining operation if they exercised their option. More than two years have passed and neither Kennecott Minerals nor their successor, Gemstone Mining, Inc. (GMI) have exercised their option to buy the property. Therefore, you remain the responsible party for continued operation and reclamation of the Violet/Red Beryl Mine under your original small mining notice (except for any new and unreclaimed surface disturbances created by Kennecott and/or GMI).

The Utah Mined Land Reclamation Act, Title 40-8-18(4) states: "*Small mining operations shall submit an amendment to the notice of intention when changes in the operation*

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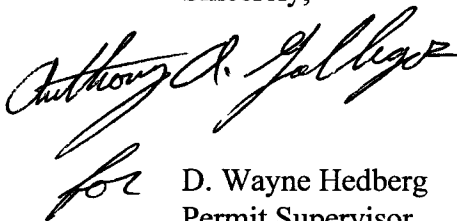
*occur.” Additionally, Utah Administrative Code R647-3-113 of the Minerals Rules states: Before enlarging a small mining operation beyond five (5) acres of surface disturbance, the operator must file a Notice of Intention to Commence Large Mining Operations (FORM MR-LMO) and receive Division approval.”*

The status of your current mining operation may be in violation of the Utah Mined land Reclamation Act (the “Act”) and its interpretive Minerals Rules. Continued operation without DOGM approval of a large mining permit or other lawful resolution to this permitting situation may be considered a willful and knowing violation of the Act and rules. A finding of willful and knowing violation (after formal public notice and hearing) may result in a Board Order requiring immediate cessation of operations, reclamation of affected areas, a civil suit, assessment of civil penalties (not to exceed \$10,000 for each violation), and/or any other lawful action authorized under the Act or applicable laws.

For your reference, we have enclosed a copy of our Large Mining Operations permit application form (MR-LMO) and a copy of our rules. We strongly recommend that you take the necessary action to resolve this matter within the 60-day timeframe as outlined in the BLM’s December 2, 1997 letter. Under a Memorandum of Understanding between our agencies, the BLM has requested that DOGM hold the reclamation surety that will ultimately be calculated for this mining operation.

Thank you for your cooperation in resolving this permitting action. Please contact me at (801) 538-5286, or Tom Munson at (801) 538-5321 if you have questions or concerns regarding the requirements of this letter.

Sincerely,

A handwritten signature in black ink, appearing to read "D. Wayne Hedberg".

D. Wayne Hedberg  
Permit Supervisor  
Minerals Regulatory Program

jb  
Enclosure: Rules, MR-LMO form  
cc: Ed Ginouves, BLM, Beaver Ranger RA (UTU-68565)  
Robert Thomas, Rancho Equipment Services  
Mary Ann Wright, DOGM  
S001011.ltr